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Syllabus of a course of twelve lectures on...

Cambridge

1894

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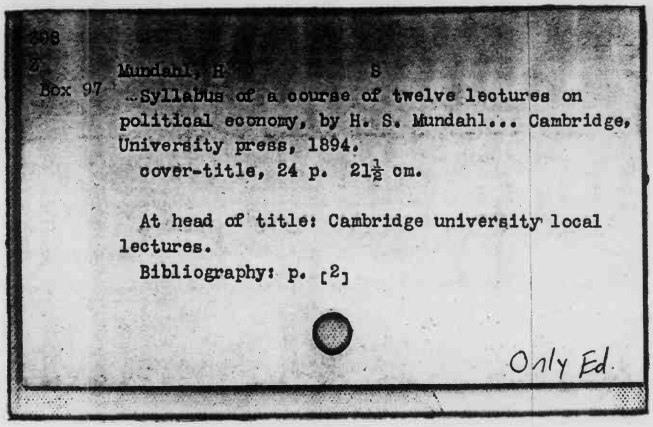

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Cambridge University Local Lectures.

SYLLABUS

OF A

COURSE OF TWELVE LECTURES

ON

POLITICAL ECONOMY

BY

H. S. MUNDAHL, B.A:, LL.B.

LATE SCHOLAR OF ST JOHN'S COLLEGE, CAMBRIDGE.

Cambridge:
PRINTED AT THE UNIVERSITY PRESS.
1894

University of Cambridge.

METHOD OF CONDUCTING LECTURES AND CLASSES.

Each Lecture will last about an hour, and each Lecture except the first will be followed or preceded by a Class for those who wish to study the subject more thoroughly. The object of the Class is to give the Students an opportunity of coming into personal contact with the Lecturer and of thus familiarising their minds with the principles of the subject, and of having their special difficulties explained. Teaching in the Class will be conversational.

There will be found in the Syllabus a list of questions on each Lecture to be answered by all who wish to do so.

The answers to these questions should be clearly written upon one side of the paper only and a wide margin should be left upon every page for the remarks of the Lecturer. At the top of the first page should be written the student's name, or some other signature by which the paper can be identified from week to week, and also the name of the Lecture-Centre. These papers must be sent to the Lecturer at

so as to reach him at latest by

, and they will be returned to the Students at the following Class.

This weekly work is an important part of University Extension Teaching, and the **certificates cannot be obtained without it.**

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The Syndicate lend during the course books of reference and some of the larger text-books recommended by the Lecturer. These are in the charge of the Local Secretary or Secretary of the Students' Association.

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POLITICAL ECONOMY.

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University of Cambridge.

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POLITICAL ECONOMY.

Jubilee 24.22.

TEXT-BOOKS.

Marshall, *Economics of Industry*, 3*s.* 6*d.*, or *Elements of Economics.* 12*s.* 6*d.* net.
Walker, *Political Economy.* 12*s.* 6*d.*
Jevons, *Primer of Political Economy.* 1*s.*
J. S. Mill, *Principles of Political Economy.* 3*s.* 6*d.*

BOOKS ON PARTICULAR POINTS.

L. L. Price, *Political Economy in England.* 2*s.* 6*d.*
Walker, *Money, Trade and Industry.* 7*s.* 6*d.*
Cox, *Land Nationalisation.* 2*s.* 6*d.*
Thompson, *Theory of Wages.* 3*s.* 6*d.*
Hadfield and Gibbins, *Shorter Working-day.* 2*s.* 6*d.*

WORKS OF REFERENCE.

Sidgwick, *Principles of Political Economy.* 16*s.*
Jevons, *Theory of Political Economy.* 10*s.* 6*d.*
Giffen's *Essays* (Bk. II.).
Bagehot, *Economic Studies.*
Cairnes, *Leading Principles.* 14*s.*
Gibbins, *Industrial History of England.* 2*s.* 6*d.*
Cox and Webb, *Eight Hours.* 2*s.* 6*d.*
Cunningham, *Use and Abuse of Money.* 3*s.*

LECTURE I.

THE BEARING OF POLITICAL ECONOMY ON QUESTIONS OF TO-DAY.

General interest in Political Economy has much increased of late years, probably more because of the practical bearing it is considered to have upon present day questions than through desire to study an abstract and theoretical science. Fifty years ago in a similar way the agitation for the repeal of the Corn Laws gave a great impetus to the study of this subject and did much to establish the influence of what has been popularly know as the Manchester School of Economists.

To-day we cannot point to any single cause for the interest manifested in social questions and through them in Economics. Improvements in education, in journalism and cheaper literature, greater political intelligence and power among the masses of the people and the extension of organisation, among both workmen and employers, have all had a share in creating a desire for accurate knowledge and methods of thought upon questions in which all are concerned. But motives even indirectly selfish are not the only ones at work; 'the question whether poverty is really necessary gives its highest interest to Economics.'

Just as an extension of the franchise and a change of the electorate has its effects upon the nature and scope of legislation, so the enlargement of the interest taken in Political Economy has had its effects upon the scope and tone of the best exponents of the science. The *laissez-faire* system was a product of special circumstances directed against special evils, and therefore laid peculiar emphasis upon certain points that have now to some extent lost their original importance. We realize to-day that what are called the laws of Political Economy are not rigid and unalterable propositions, but are dependent to a very large extent upon conditions of time and circumstance. The attention of Adam Smith in the middle of last, as of the Manchester School in the middle of the present century, was forcibly drawn to the evils arising from ill-considered State interference with trade; consequently they laid somewhat more stress upon these evils than we should require to do to-day.

Political Economy, as we now understand it, is practically not more than 150 years old. How is this, when mankind have been under the necessity of getting their living from the earliest times?

(1) Industry in its present form is of recent growth.

(2) Economic phenomena are much more definite and numerous than formerly.

In Greece and Rome industry was despised as the work of slaves; communities were organised for war rather than for industry.

This contempt had its after-effects upon scholars of later eras and economic questions were regarded as ignoble and unworthy the study of educated minds. Roman Law has greatly influenced modern theories, but to pure economics Rome made no direct contribution.

In the chaos of the Dark Ages industry and the arts made no progress; no stable foundation could be laid. The Church, Feudalism and Chivalry all had influences upon industry at large, but it is in the Medieval towns that we find the first germs of the system of to-day.

Maritime discoveries and shipping enterprise developed commerce, while the growth and wealth of the towns promoted trade. Still, though many subsisted comfortably upon trades and crafts there was little of the modern freedom of selection of trades. The worker lived under the jurisdiction of his gild, first as apprentice, then as journeyman, finally as master craftsman; there was no employer beyond. In farming however the capitalistic system made its appearance earlier.

The invention of labour-saving appliances, the introduction of machinery and the opening up of new markets, created the need for business organisers or 'undertakers.' The regulations of the old gilds were felt to be a restraint upon the new methods of production, and the State had put shackles upon commerce by adopting and enforcing the theories of the Mercantilists. In France distress was crying, and the leading thinkers of the day who turned their attention to the problem were the Physiocrats, who advocated a system of natural liberty. Under these circumstances Adam Smith wrote his book—the Wealth of Nations—which we may regard as the foundation of modern Political Economy.

READING:—

Marshall, Bk. I. (Economics of Industry).
Jevons' Primer, chap. 1.
Walker, Pt. I.

LECTURE II.

OUTLINES OF THE HISTORY OF POLITICAL ECONOMY.

Adam Smith's book soon acquired an immense influence, and its results remain with us to-day. "The life of almost everyone in England is different and better in consequence of it." Among his most influential followers were Pitt and Bentham, to the latter of whom is largely due the somewhat harsh and abstract form of the earlier Political Economy, while the excesses of the French Revolution led him to attach an almost superstitious reverence to existing institutions of private property.

Adam Smith's great work consisted in showing that value being a *measurable* motive, furnishes a scientific basis for Economics.

The earlier economists, however, overrated the rapidity and completeness of competition and the benefits of individual freedom. They did not allow sufficiently for the effects of custom and inertia, nor consider the possible benefits of collective, as distinct from individual action. As they concerned themselves largely with problems of Money and Foreign Trade, where motive does not come so largely into play, their oversights in these respects did no great harm at the time.

But to-day the human instead of the mechanical element is brought into prominence, and, owing in considerable measure to the work of the Socialist writers, the possibilities of collective action are more studied. Much of the best and highest work is done without the motive of private gain, and it would be well if the scope of such work could be extended. We must consider the subject not merely from the standpoint of the "economic man," but from that of man as he actually is with his moral and religious views, and as we hope he may become.

Material additions have been made to the science since Adam Smith's day, especially by Malthus in his Essay on Population, 1798; by Ricardo, who in 1817 published his Principles of Political Economy and Taxation, containing his famous theory of Rent; and by John Stuart Mill with his Principles of Political Economy, 1848, which is still the basis of modern economic thought. Of late considerable attention has been paid to Statistics and to collecting information upon practical questions.

EXPLANATION OF TERMS AND PRELIMINARIES.

Words are frequently used in Economic arguments with specialised meanings which we must keep quite clear or our results will not be true.

Economic laws are flexible statements of probabilities relative to particular times and circumstances; as Professor Marshall puts it, the expectation of normal action. They are statements of fact imputing neither blame nor praise.

They lack the definiteness and certainty of physical laws.

It is sometimes said that Political Economy is the Science of Wealth. What do we mean by *Wealth?*

(1) Not money merely.

(2) Not visible or material things only; we have internal and external goods, material and personal or immaterial wealth.

(3) Not private property only; national and collective wealth is increasingly important.

What is meant by *Production.* Man can only produce *utilities,* not matter; that he can only move. The various sharers in production include not only the mechanic but the designer, carrier, dealer, organiser and others.

So with regard to *consumption*, an immense variety of labour is 'consumed' when any single article is put to its destined use. Some things are consumed at once, others last a long time.

Labour may be defined as any exertion of mind or body undergone with a view to some good other than the pleasure derived directly from the work. Example of a football professional.

The term *necessaries* is a flexible one. Things necessary for mere subsistence do not include all the necessaries for efficiency.

Capital is not so wide a term as wealth. Individual capital is that portion of a person's external goods by which he obtains his livelihood. Land and free gifts of nature are sometimes excluded; so too is personal capital, as not being transferable. *Trade-Capital* is again a narrower term, including only such portions of capital as are used to produce a money return.

When we come to consider *social capital*, or the wealth of a nation, not only do we include many things that are not the subjects of private ownership, but mutual debts and credits between members of the nation can be omitted.

Two important qualities of capital are 'prospectiveness' and 'productiveness.'

Rent in the popular sense means money paid for the hire of land and buildings. In the Economic sense it has a peculiar meaning, which is extended by analogy even to the special abilities of a clever man of business.

There are other terms which may best be explained as the need for them appears.

Marshall, Bk. I. chaps. 2, 3, 4, and Bk. II.
Walker.
L. L. Price, chap. 1.

LECTURE III.

LAW OF SUPPLY AND DEMAND.

As man gets more civilized the number and variety of his wants increase. He requires first, food and the means of subsistence, but when these are provided, increased quantities of them are not so urgently necessary or so useful to him. 'The *total utility* of a commodity to a person increases with every increment of his stock of it, but does not increase so fast as his stock of it increases.' Consequently, where there is not a good opportunity for disposing of his surplus stock by profitable exchange, that surplus has to be used up in ways less useful than those in which the first part of the stock was consumed. We say that the surplus has a low marginal utility. Example, milk on a farm.

A person will so distribute his stock of a commodity to different uses, that the last portion applied in any one case is just as useful as the last portion applied in any other case; for otherwise, if the benefit derived from the last portion applied in one case is greater than in the others, he will be induced to apply more in that case which gives him a greater benefit. But sooner or later he reaches a point where the effort necessary

to obtain a further increase of his stock is not compensated by the usefulness to him of the further increase. We thus reach the *marginal utility* of that commodity.

By exchange, however, he may be able to dispose of part of his stock and obtain for it some other commodity, and it will be to his interest to do so as long as what he gets in return is more useful than the particular portion of his stock that he has given in exchange. He disposes of the least necessary part of his stock, and what remains has a higher marginal utility.

The demand for a commodity is not the same as desire or need of it; the total amount of commodities offered in exchange for a commodity measure and constitute the demand for it. Demand is desire backed up by purchasing ability. The desires of two people may not be equal, though each offers the same amount.

From the case of a single individual we pass to the case of a market. A market in Economics has a very wide meaning. It is not restricted to a single building, a single town, or even a single nation. The Law of Indifference declares that in the same market at the same time there cannot be two prices for the same article, but slight differences nearly always occur, and a perfect market is exceptional. Many and varied elements go to make up the composite demand of a market, and the demand of a single individual is dependent upon numerous considerations.

The utility of the marginal increment determines a person's willingness to buy or refuse. The quantity a person is willing to buy increases as the price decreases. The quantity a person will demand at one price is not the same as that he will demand at a different price. When we speak of demand we always mean demand at some particular price.

For some articles a small fall in price causes a great increase in the quantity demanded—e.g. meat, fruits, milk. We say then that the *elasticity of demand* is great.

The statement of the quantities demanded at different prices is called *the demand schedule;* it can be conveniently expressed by diagrams.

What is the supply in a market? Here again it must be noticed that the supply at one price is not as a rule the same as that at another. The element of time is to be considered. The effect of a fall in price is to increase the quantity demanded and to diminish the quantity supplied as the inducement to supply is diminished. Hence there will always be some price at which the quantities supplied and demanded will be equal. The price in a market becomes fixed at such a level as will create an equilibrium between supply and demand.

We have however to consider not only the case of a single day, or a fixed stock, but also of periods of time and the production of further stocks. Not merely temporary equilibrium, but the equilibrium of *normal demand and supply;* and moreover with regard to normal price different considerations are involved according as the period of time involved is long or short. Normal price tends to equal *cost of production*, using that term in a wide sense to include profits as well as wages and interest on capital; this statement omits the effect of market fluctuations.

Ricardo has been much criticised for stating that the cost of production determines price; Jevons perhaps went too far in asserting that utility

alone determines price. It is the combined effect of the two that really effects this.

Instructive illustrations of the working of the law of supply and demand and its effect upon prices may be obtained from the history of commercial crises and the methods and results of Rings and Corners. We can apply the law to the restrictions of output that have been proposed in various trades.

Marshall, Bk. III. and Bk. V. chaps. 1—3.
Walker, Pt. III. chap. 1.
Jevons, Political Economy, chap. IV.
L. L. Price, chap. 4.

LECTURE IV.

THE LAW OF DIMINISHING RETURNS.

The exchange value of any commodity is determined by the law of supply and demand. An increase of demand results in an increased price *provided* the supply does not increase; the effect of increased price is to add a stimulus to production and so to increase supply. With regard to this increase of supply there are three possibilities; it may be produced at the same price or cost as before, or at a higher or lower cost.

If the return to an outlay of capital increases in the same proportion as we increase the capital the community is said to be subject to the law of Constant returns; if the return increases more rapidly than the capital applied we have increasing returns, if less rapidly diminishing returns.

Manufactures generally are subject to the law of increasing returns; the larger the scale on which production is carried on the more economics can be effected, and the larger is the return to each increment of capital.

The law of diminishing returns applies primarily to agricultural land. The returns to capital and labour put into land gradually diminish; a man will go on applying capital and labour until the returns diminish so much as no longer to remunerate him for applying them. The law is however applicable to the case of building land, and with certain limitations to fisheries, mines, and springs. It applies not only to corn but to agricultural produce of almost every kind.

The analogy between the law of diminishing returns and the law of demand should be noticed.

It is necessary also to notice that the 'margin of cultivation' relates not only to the cultivation of inferior land but to 'intensive farming' on land of good quality. We may regard labour and capital as applied to land in successive *doses*, and we get a nearer approach to the actual facts than by regarding the operation of the law as consisting in bringing into or throwing out from cultivation certain lands on the margin of cultivation.

The standard of cultivation varies largely according to the nature and circumstances of each particular piece of land; it is also important to observe that land may be thrown out of cultivation for one kind of crop and be taken up for another. Land may to a certain point be subject to the Law of Increasing Returns, and the Law of Diminishing Returns begin to operate after that point is reached.

The point played by man in production conforms to the law of increasing that by Nature to the law of diminishing returns.

Malthus was led by the serious effects of this law in his own day to consider the question of the pressure of population on the means of subsistence. His three propositions were

(1) population is necessarily limited by the means of subsistence;

(2) population invariably increases where the means of subsistence increase unless prevented by some very powerful and obvious checks;

(3) these checks and the checks which keep population on a level with the means of subsistence are all resolvable into moral restraint, vice and misery.

He applied his deductions from the law of Diminishing Returns somewhat too rigidly. The opening up of the vast fields of America and other countries, improved methods of cultivation and organization, and the repeal of the Corn Laws, have in our days vastly altered the nature of the problem. Malthus could not be expected to foresee the gigantic expansion of English trade during the present century. Moreover he did not sufficiently recognize that as civilization increases the desire to maintain an increased standard of comfort is one of the most powerful checks to excessive increase of population. Food is not now the all important element, and the marriage rate conforms rather to the general fluctuations of trade than to the price of wheat.

Marshall, Bk. IV. chap. 3, 4, 13; Bk. V. chap. 8; Bk. III. chap. 3.
Walker, Pt. II. chap. 1; Pt. V. chap. 1, 2.
L. L. Price, chap. 2.

LECTURE V.

RENT IN POLITICAL ECONOMY.

Rent in its ordinary sense means a payment for the use of land or immovable property. Ricardo wished to restrict the term to the price paid for the original and indestructible "powers of the soil." The fact that a large part of the productiveness of a farm is due to capital and labour expended and not to the "original and indestructible powers of the soil" is an objection to this use of the term.

Regarding rent however as a payment for the use of '*a differential advantage in production*' (usually one due to some free gift of nature) we

see there are various kinds of rent, as rent of fertility, rent of situation. We see also the principle of rent regarded as payment for use of a differential advantage, can be extended to other things besides agricultural land—for example, to ground-rents in towns, to special abilities in business management; also to certain special cases where cost of production does not furnish a test of the value of a product, as in successful railroads, patents, business goodwill, &c.

Rent arises from the existence of a surplus between cost of production and value of product. It is distinguished from 'profits' as being due to the using of some differential advantage.

[The surplus which the producer thus obtains is termed 'producer's rent.' Its connection with the law of diminishing returns is easily seen. On the other hand the excess of the benefit derived by the consumer from a commodity over its cost to him is by analogy termed 'consumer's rent.']

Rent does not enter into cost of production; for the return to each additional 'dose' of labour and capital gradually diminishes till the farmer only just decides to apply his 'marginal dose' and then stops; he estimates that it would not pay him to apply one more 'dose'; in other words the cost of applying the last dose is just equal to the return derived from it. On all previous 'doses' there has been a surplus which constitutes 'rent' in the economic sense.

The 'margin' itself is determined by the law of supply and demand in each particular case.

Cautions in regard to this doctrine.

(1) The principle applies to a landowner farming his own land.

(2) The 'marginal dose' not necessarily on 'land on the margin of cultivation.'

(3) It does not mean that a farmer need not take his rent into account in making up his balance-sheet. It does mean that he need not do so in calculating whether to apply more capital to his land.

Does not apply (except to a very small extent) to e.g. rent of a factory.

Alternative uses for the same land may affect rents, by altering the amount of land available for a particular product.

The effects of development of American cornfields has lowered rents in England.

From 1831—40 our imports of grain were 8 million bushels; 1881, 256 million bushels.

From 1831—40 the general exports of grain from U.S. were about 8 million bushels; 1881, 285 million bushels.

This would naturally raise margin of cultivation in England and reduce rents but has not done so as much as we should expect.

Rents should have been reduced by £22,800,000, but in fact not half that amount.

Estimated American grain costs 9*s.* a quarter for carriage.

Mining Royalties include not only payments as compensation for deterioration in value of the Mine by removal of minerals but wayleaves shaft, outstroke and instroke. It is often asserted that royalties are grossly

unjust, that their effect is to send up prices and limit production, while foreigners with lighter royalties are able to undersell us. It appears however that there is considerable variation in English royalties; the higher are paid for advantages in production, and their abolition or nationalisation would not affect prices or wages. Abroad the *concessionaire* takes the place of royalty owner here.

Some improvements have been suggested in wayleaves, &c.

Land Nationalisation. Various schemes suggested, e.g. 2000 A.D. State to be sole landlord but not sole cultivator. Rural as well as urban land to be taken. The advantages are doubtful; it would, if compensation were given, be a good thing for landlords but a bad investment of the national funds; confiscation cannot seriously be advocated; rich and poor holders for value, industrious and otherwise, would be all affected.

Taxation of Ground values somewhat complex but not open to so many objections as the nationalisation scheme. The object is to secure the benefit of the 'unearned increment' for the community.

Marshall, Bk. IV. chaps. 1—3; Bk. VI. chaps. 9 and 10.
Walker, Pt. IV. chap. 2; Pt. VI. chaps. 9, 10.
Jevons, chap. 6.
Cox, Land Nationalisation.
L. L. Price, Political Economy in England, chap. 3.

LECTURE VI.

THE SUPPLY OF LABOUR.

In Middle Ages industries were few, small, and localised. Occupations were to a considerable extent hereditary, and dependent upon the apprenticeship system. The workman performed every part of the process and turned out the finished product; so too each town or district provided for its own requirements, and large wholesale industries were rare.

On the question whether the State should encourage or repress the *growth of numbers*, there have been frequent changes of opinion according to the circumstances of each particular period. Case of Act of 1806.

The prudence of peasant proprietors contrasts with the early marriages of hired agricultural labourers. In early times it was difficult for agricultural labourers to marry; the Industrial Revolution made employment abundant and marriage easier. Since the reform of the Poor Law 1834 the growth of population has been fairly steady.

We must however consider not numbers merely but *efficiency*. This depends chiefly upon the health and strength of the workers, physical, mental and moral. These again are due to a variety of causes, as climate, race qualities, food, and conveniences of life. Hopefulness, freedom and

change are powerful factors. Their effects are well seen in considering examples in slave labour, of Factory Acts, and town life.

The rise of modern industrial system has produced a great division of labour. We find now a large amount of specialised skill; specialised not only to manufacture of some particular article, but to some particular process. Examples from book-making and teaching. But we have also a great amount of general ability, of responsibility, which is apt to be overlooked.

Home influence, and education, both general and technical, help to develope general ability, and this is becoming increasingly valuable as machinery more and more replaces mere manual dexterity. Technical education should aim at developing faculties, rather than at teaching what is soon acquired from the work itself. Comparison of German and English systems. The value and importance of education. Decay of the apprenticeship system.

It is very important to notice that manual labour is not the only kind nor the most important kind of labour. Inventors and organizers do work quite as laborious and as valuable, and it is very necessary that they should have opportunities to develope and to show themselves.

"The economic value of one great industrial genius is sufficient to cover the expenses of the education of a whole town." So too with scientific, medical, or artistic genius. The expense of educating children is an investment which is discounted at different rates by different classes. The choice of occupations for children is chiefly 'horizontal.'

The wages of similar labour in all employments tend to become equal, though very slowly.

Mobility of Labour is of two kinds—movement or change from one place to another, and from one employment to another.

There is always an initial friction or inertia against movement which has to be overcome. The amount a class of workers will suffer rather than change employment gives a measure of mobility. Some classes, like machine makers, are quite mobile. Business organisers too require rather business talent than detailed knowledge, and are therefore very mobile. 'Vertical' movement between employed and employers has diminished.

The labour available for supply of a particular commodity may include also foreign labour, which must be kept in mind in discussing English labour problems. A "nation" in the economic not necessarily the same as in the political sense.

Foreign immigration. Higher rates of wages naturally produce a certain influx of foreign labour but it may be doubted whether this cause has had any serious effects. The evil is with pauper immigrants, who in certain districts have no doubt affected prejudicially the wages in particular trades. But we have in the past gained materially by permitting free ingress, and the question to-day is rather one of degree than of principle; we must consider both direct and indirect effects.

The Unemployed. Statistics published by the Labour Department show the proportion of unemployed in organised trades, but it is difficult to obtain figures of unorganised, and especially of unskilled workers who form the

great bulk of the unemployed. The more efficient labour is seldom long unemployed.

Marshall, Bk. II. chap. 3; Bk. IV. chaps. 1, 5, 6; Bk. VI. chaps. 3, 4, 5.
Walker, Pt. II. chap. 2.
Gibbins, Industrial History of England, Period II. chap. 2; Period III.

LECTURE VII.

CAPITAL.

Capital may be defined as that part of a person's external goods by which he makes his livelihood; Mill's definition is "wealth devoted to reproductive enjoyment." On the one hand we exclude articles used merely for luxury or display, so that all a person's property is not necessarily capital; on the other hand we include whatever contributes to his efficiency as a worker, and thus bring in many things not comprised in his *trade capital*, or the articles which he uses in his trade.

Capital has two characteristics:

(1) it consists of the products of past labour set apart for purposes of future enjoyment;

(2) it is used to assist in the production of further wealth.

Mere hoarded savings not used in production are therefore not capital.

Observe that

(1) Capital arises from abstinence, and (2) its use increases the productiveness of labour.

The earnings obtained by capital may then be regarded as

(1) the capitalist's reward for abstaining from enjoying the results of his past labour or postponing his enjoyment;

or (2) the compensation paid him for allowing someone else to use a valuable instrument of production.

At first capital consists mainly of food and the *means of subsistence;* then come tools, and then materials. The first of these may be termed *consumption capital*, the rest *auxiliary capital.* There are other distinctions which may be noticed but are not of great importance for present purposes, such as *circulating capital*, which fulfils its whole office in a single use, like food or a suit of clothes, and *fixed capital*, "which exists in a durable shape and the return to which is spread over a period of corresponding duration" like a machine or a ship. This last term has sometimes been used to denote what is better termed *specialized capital* which has been designed for use in one trade and cannot well be diverted to another. Thus a spinning machine is *specialized*, while the engine that drives it is not, but both are *fixed* capital.

Social is to be distinguished from individual capital. It comprises some things not included in the latter, as for instance roads and bridges, schools and public buildings, the means of national defence, and excludes others that are comprised in individual capital, such as debts due from one person to another.

Earliest forms of wealth were probably instruments for hunting and fishing; then improvements embodied in land, little auxiliary capital. Introduction of steam-power has caused a vast increase of auxiliary capital. The form of early capital not so favourable for saving as money is. The labourer now uses auxiliary capital equal to the value of his own labour for 5, 10, 30 years or even more. The capital of the country has increased from about £1,100,000,000 in 1774 to £8,720,000,000 in 1882, and it is calculated that in the last decade capital has increased £1,500 millions.

The rate of increase of saving depends

(1) upon the amount of the fund out of which the saving is made, that is the annual income;

(2) upon the motives for saving.

Chief among the latter are the rate of interest, the security or certainty of future enjoyment, and the desire to provide for oneself and family. The theory that the earnings of capital are the reward of abstinence is not entirely satisfactory; we must look at these earnings from the side of the borrower as well as of the lender.

A great deal of what is commonly termed interest is really of the nature of Insurance, both as regards the credit of the borrower and the risks of a business. It is advisable to draw a distinction between the capitalist and the "undertaker;" most undertakings are carried on to a greater or less extent with the aid of borrowed capital.

At various periods, the laws of the country or the teachings of the Church have endeavoured to limit or prohibit altogether the taking of interest for loans. It is however a mistake to suppose that Usury Laws really make the rate of interest lower; they diminish the supply of capital available for loans and tend to raise the rate of interest by evasions of the law.

Notice that capital can be invested in persons quite as well as in material things. The professional and upper middle classes in England invest largely in the education of their children, while the working classes invest much of their earnings in the physical health and strength of their children. Public property too comprises now a large investment of capital.

A high rate of interest is not absolutely essential to a rapid accumulation, as recent experience proves; the rate of interest has fallen greatly during the last century but the rate of accumulation has greatly increased.

Specialized capital cannot easily be transferred from one employment to another, but there is always a large loan fund ready to run into channels offering a slightly higher rate of interest. This is assisted by the Banking System. A large amount of British Capital is invested abroad; it is estimated that from our foreign investments we derive an income of £100 millions a year.

Marshall, Bk. II. chap. 4; Bk. IV. chap. 7; Bk. VI. chaps. 6, 7.
Walker, Pt. II. chap. 3; Pt. VI. chap. 1.
Bagehot, Economic Studies. The Transferability of Capital.
Mill, Bk. I. chaps. 4, 5, 6, 11; Bk. III. chap. 23.
Cunningham, Use and Abuse of Money.

LECTURE VIII.

THE ORGANIZATION OF INDUSTRY.

Contrasting our own methods of producing wealth with those of backward communities we perceive what immense subdivisions of industry exist. In England till the 15th century farming was almost the only industry, and it was carried on with a view to subsistence rather than to profit. There was in the towns a certain limited division of labour, but the modern system of organization may be said to date from the Industrial Revolution in the middle of the last century.

Adam Smith gives as the three principal advantages of the division of labour:

(1) increase of dexterity of workman,

(2) saving of time lost in passing from one employment to another,

(3) invention of labour-saving machines.

The greatest advantage is perhaps in work being allotted to each in accordance with his particular capacity. Extending this to localities and to nations we have the basis of the Free Trade doctrine.

Division of labour tends to large-scale production. In the case of manufactures many economics are thus made, and the law of Increasing Returns operates beneficially.

Whether as cause or effect one great feature of modern organization is the extended use of machinery, which we may regard as a species of tools making labour more efficient and productive. The immediate result of the introduction of machinery is sometimes the displacement of some labour, but this is usually only temporary; subsidiary industries spring up and the labour is soon absorbed. The benefits of machinery are felt directly by the consumer, but there is nearly always a rise in wages.

The advantages of business skill and of organization are similar to those of machinery; labour is disposed in such a way as to secure the greatest return for a given effort, or to secure a given object with the least expenditure of labour.

Some causes have tended to increase, some to diminish the mobility of labour. Mobility may be measured by the amount of discomfort a class of workers will endure rather than take an alternative employment. The mobility of business organizers has increased.

Just as particular kinds of work are performed by those who have special qualifications, so industries tend to become localised in places

having special facilities. This saves much labour in attaining a given result. Examples—Cotton trade, smelting, fishing.

An extension of this principle to the case of Foreign Trade shows the advantage involved in Free Trade. It is to the advantage of all that commodities should be produced with the least possible expenditure of labour; each country should produce those articles for whose production it has the best relative advantages. Getting the benefit of the Law of Increasing Returns in her manufactures, England derives from Free Trade a greater gain than other nations, who feel, in increasing their agricultural products, the stress of diminishing returns.

The division of labour, and the necessity for carefully selecting the processes involved in producing a single article, have increased the necessity for the business manager or "undertaker" and also the field for employment of capital. Most businesses have the assistance of borrowed capital, the capitalist receiving interest for the money he lends, the undertaker being remunerated by *profits*. In the case of joint-stock Companies the two are to some extent amalgamated.

The State has interfered in some instances with the unfettered action of competition, as in the Factory Acts, for the protection of those unable to protect themselves, and by adulteration laws, Merchandise Marks Act and the like, to protect the purchaser from fraud or furnish him with knowledge he could not ordinarily obtain for himself.

Unqualified *laissez-faire* cannot be accepted; the extent to which it is desirable Government should interfere with the operation of free competition is a debateable question that cannot be answered absolutely. Only general criteria can be suggested.

Marshall, Bk. I. chap. 3; Bk. IV. chap. 8—end of Bk. IV.
Walker, Pt. II. chap. 4.
Gibbins, Industrial History of England, Period V.

LECTURE IX.

THE THEORY OF VALUE.

Having considered the various elements that contribute to the production of wealth,—land, labour, capital, and their combination in organized industry, we can now further examine the question of value of which a preliminary survey was taken in Lecture III.

The usefulness of an article to a particular man constitutes its utility or *value in use* to him. The same thing may have different degrees of utility to different people. We measure this utility by the amount of commodities he would be prepared to sacrifice rather than go without the article in question. This amount does not measure utility absolutely, but only relatively to his general wealth. A person so regulates his expenditure that each purchase he makes gives him a larger return

of utility than he would get by expending the money in any other way. The thing important to be considered is not so much what actually is the utility of an article to a person, but what *does he think the utility is likely to be.*

The word *value* however usually means 'value in exchange.' This is determined by the law of supply and demand. *Cost of production* can have no effect upon value if it has none upon supply. On the other hand *utility* only affects value because it influences a person in offering more or less in support of his demand for an article. These two elements, cost of production and utility (value in use), are as it were, in the background, the value in exchange being determined at such a level as will produce an equilibrium or balance between the demand and the supply at that price.

We must observe the operation of this law not only in respect of single articles but for quantities of a commodity that can be weighed and measured. A curve illustration will best enable us to understand such propositions as that 'marginal utility is raised and total utility is lessened by a check to supply.'

Owing to a laxity in expression, Ricardo has been understood to enunciate the doctrine that the cost or value of a thing should be the same as its cost of production. Marx and the Socialists have claimed Ricardo's authority for the statement that the natural value of things consists solely of the labour spent upon them. Ricardo however recognised that account must be taken not only of the quantity of labour applied, but also of

(*a*) differences in quality and nature of labour;
(*b*) the extent to which labour is assisted by capital;
(*c*) unequal durability and profitableness of capital.

What Ricardo terms the 'natural' value is now generally termed the *normal* value. In the long run things tend to be exchanged at their normal values which are such as afford equal expectation of advantage to all classes of producers. Using the term cost of production to include not only (*a*) wages of labour but (*b*) interest and insurance of capital, and (*c*) profits or wages of management, we can say that normal value tends to equal cost of production.

Jevons at the other extreme, considered that value depends entirely upon utility.

Notice that the principles which determine value apply whether the thing whose value is to be ascertained is a material thing, or the loan of capital or an amount of labour.

The case of 'monopoly values' and 'scarcity values' is instructive. We may distinguish three cases.

(1) Demand is keen and supply limited, but expense of somewhat increasing supply is small; *e.g.* scarce wines.

(2) Demand limited, supply capable of extension; *e.g.* a new book.

(3) A scarce commodity sold by a number of vendors who do not combine; *e.g.* mineral waters.

Mill in Bk. III. ch. 6 gives a useful summary of 17 propositions on the theory of value.

Marshall, Bk. V. chaps. 2, 3, 8; Bk. III. chaps. 3 and 6.
Mill, Bk. III. chaps. 1, 2, 3 and 6.
Jevons, Political Economy, chaps. 3 and 4.
Walker, Pt. III. chaps. 1 and 7.
L. L. Price, Political Economy in England, chap. 4.

LECTURE X.

THE THEORY OF MONEY.

We can easily get an idea of the chief uses of money by considering the inconveniences arising if no money existed. Barter even in primitive communities presents obvious disadvantage; the person who desires a particular article may have nothing to offer in exchange that its owner is willing to take; or the values of two articles may not be equal.

Hence we soon see some *medium of exchange* introduced; not necessarily metallic money, but cattle, corn, jewels, furs or skins, tea and many other articles have been employed. Considering wherein each of these is deficient we find the requisites of a good medium.

It should be

(1) Acceptable,
(2) portable,
(3) divisible,
(4) durable,
(5) stable in value,
(6) recognisable.

Metals, and especially the precious metals, fulfil these requirements more completely than anything else and have been generally used. The expedient of coining suggested itself, and was generally undertaken by Government.

Money fulfils a second use as a measure or *standard of values* to compare different articles. Notice the two functions are distinct.

A third use for money is in acting as the *standard of deferred payments.*

Silver and copper coins in England are only tokens representing fractional parts of a sovereign. Gold is the standard, and the value of a sovereign is simply the value of the amount of gold which it contains. The value of a shilling is not the value of the silver it contains, which could at present be purchased for about 7½*d.*

The *price* of an article is its value expressed in terms of money. General prices are regulated by the law of supply and demand. The supply of money in any given time (say a month) is the amount of money *multiplied by* its rapidity of circulation, i.e. the average number of times each coin changes hands during that period. The demand for money is measured by the total amount of commodities to be sold for money *multiplied by* the average number of times each is resold.

Cost of production has only an indirect effect upon the value of money by altering the supply.

Considering the case of token coins we see that what makes money circulate is the confidence each receiver has that others will take it from him at the same value. If this end is secured the intrinsic value of the coin

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itself does not much matter. So we pass to Bank-notes, convertible and inconvertible. Mutual indebtedness among traders is also liquidated by Bank cheques through the Clearing House system to the extent of 95 per cent. in value of transactions, leaving 4 per cent. for paper money and less than 1 per cent. for actual coin. The transactions of the London Clearing House in 1892 were £6,500,000,000, while the amount of coin in the country is only £150,000,000.

Credit thus replaces money to a large extent and keeps prices at a higher level.

From time to time the purchasing power of money may alter through changed relations between the supply of and the demand for money. From beginning of the century to 1850 prices fell about 40 per cent., from 1850 to 1873 they rose 20 per cent., and since then have fallen 28 per cent. It is therefore alleged that gold is a bad standard for measuring payments extending over a length of time, and a *Multiple Standard* has been advocated to remedy this defect. This method proposes to take as its basis a unit derived from the prices of a number of selected articles of general consumption. Debts payable at a future time or annuities, are to be discharged by giving, not an equivalent number of pounds, but an equivalent number of standard units, which of course can be reduced to a money equivalent. The proposal itself has not met with very general acceptance, but the principle is useful and instructive in connection with the vexed question of Bimetallism.

The fundamental principle of *Bimetallism* is the use of two metals—gold and silver—instead of one—usually gold for the monetary standard. The advantages claimed for this scheme are

(1) That it will increase the quantity of money in use, improve trade and diminish the burden of indebtedness.

(2) That it will steady the exchanges and prevent dislocation of trade arising from fluctuations in prices.

(3) A par of exchange will be created between gold using and silver using countries.

The question is very complex and requires considerable study, but it is a fairly open one. Neither the advantages nor the dangers are so great as often alleged.

Mill, Bk. III. chaps. 7, 8, 9, 10, 11.
Walker, Political Economy, Pt. III. chaps. 2—6; Pt. VI. chaps. 6 and 14.
Walker, Money Trade and Industry.

LECTURE XI.

THE SHARING OF WEALTH.

The four claimants for the products of industry are

(1) the landlord claiming rent,
(2) the employer claiming profits,
(3) the capitalist claiming interest,
(4) the workman claiming wages.

Various theories have been advanced as to the nature of the claim made and the remuneration received by each of these classes. We have already seen that much of what is usually termed rent, is of the nature of payment for the use of capital. But there are practically advantages in regarding such payment as rent; capital it is true can be borrowed for immediate use but farms or factories are not supplied immediately, and much of the advantage derived therefrom is owing to situation or natural agencies, which are free gifts of nature having no cost of production, while again suitable buildings cannot be immediately supplied.

The landlord will be able to exact a share of the product, equal in value to the advantage in production which that particular farm or factory gives as compared with the least advantageous one at which business can be carried on. Rent therefore does not constitute a deduction from wages; what is the minimum advantage with which production can be carried on at any given time depends upon the law of supply and demand.

Similarly it may be argued that the employers' profits are analogous in their nature to rent, being due to the excess of business capacity of the particular master over that of the least competent employer who is able just to pay his way. This surplus it is argued does not form part of the cost of production, and does not form a deduction from wages.

The third share or interest on capital is fixed by the relations of the supply of and demand for capital. The general rate of interest at any particular time in a country is fairly definite, but allowance has to be made for risks in any particular business, for the depreciation, wear and tear of plant and machinery, and for the time that elapses between investment and return of capital. Where the uncertainty of return is great, or the solvency of a borrower doubtful, the rate of interest is high.

It is sometimes asserted that these three shares are in a manner fixed, and that the share that goes to wages is *residual*, i.e. that labour takes all that is left. Another view is that the labourer receives a subsistence wage, and the landlord, capitalist and employer then come in and take all that is left. The better view however appears to be that no one of the shares can be regarded as residual, but that each is a varying proportion of a varying product, and the amount that goes to each class is determined by the relation of supply and demand of each factor relatively to the others.

The Wage-Fund theory set forth that wages depend upon the proportion between population and capital, assuming that there was in any country a specific fund set apart out of which the wages of labour are paid, independently of the value of the work done. Every labourer is however a consumer, and his consumption creates a further demand. The theory must now be regarded as exploded, as also the dictum 'a demand for commodities is not a demand for labour.'

The work-fund theory is really another modification of the last.

During the last half-century there has been a great increase in the material prosperity of all classes in England. Not only have actual money earnings increased, but the prices of articles of common consumption have fallen considerably. Moreover, while the wages of the same class of labour have increased, the proportion of skilled workers has greatly increased, while that of agricultural labourers and those receiving the lower wages has diminished. Statisticians differ somewhat, but according to Dr Giffen's estimate the position of the working-class has improved about 200 per cent., that of the middle class 150, and the upper class 100 per cent.

Higher wages tend to greater efficiency within limits which are somewhat difficult to define. There is a tendency at the present day to take the advantage of shorter hours and increased leisure instead of increased wages.

Marshall, Bk. VI. chap. 2, 6, 8, 11, and 12.
Walker, Pt. IV.; Pt. VI. chap. 5.
Thompson, Theory of Wages.
Giffen's Essays.—The Progress of the Working Classes for 50 years.
Mill, Bk. II. chaps. 11—16; Bk. IV. chaps. 3, 4, 5.

LECTURE XII.

TRADE UNIONS.

Modern trade unions have some slight historical connection with the old gilds, but substantially they are a modern movement dating practically from the repeal of the Combination laws in 1824, which first legally permitted the formation of such societies. Further legal recognition was accorded by Trade Union Acts of 1871 and 1876.

Constitution and Government of the Unions.

Their objects:

(1) Provident benefits, funerals, superannuation, sickness, accidents, out of work allowances, legal assistance.

(2) Raising wages, reducing hours of labour and improving the condition of workers.

The growth and present position of Trade Unions.

The New Trade Unionism, principally for unskilled labour, lays more stress on the militant and less on the provident side of Unionism. It has also a considerable leaning to labour legislation.

The Influence of Trade Unions upon Wages.

During the last 50 years there has been an immense rise in wages, but how far this is due to the action of Trade Unions is doubtful.

An artificial scarcity of labour—whether by limiting the number of labourers or the hours worked by each—can under certain conditions raise wages in a trade. This end is however only attained at the expense of consumers and of other trades. A restriction in all trades must lower wages generally. Restriction does not increase the output but diminishes it; there is less to divide among producers; and restriction of itself does not alter the proportions of the various sharers of the product—landlords, capitalists, employers and workmen, so it does not cause workmen to receive a larger share even of the smaller product.

It is however contended in favour of the Unions, that the threat of a strike is often sufficient to compel an owner to concede higher wages, and thus workmen are placed in an advantageous position in bargaining. To this reply is made that the fear of such a threat, and uncertainty of the action of the Unions, makes owners hesitate to extend their business. In this way it is alleged the demand for labour is cramped and therefore the price of labour kept down.

The question on the whole seems one of balancing advantages and drawbacks.

The advantage of some objects of Trade Unions is debated, such as discouragement of piece-work, and of overtime, insufficient grading of workmen according to efficiency.

Trade Unions have done valuable and important working in shaping the character of the labourers and giving them increased independence and efficiency; also in the prevention or settlement of disputes between masters and men, by arbitration, conciliation or sliding scales.

The Eight Hours' question is in some of its aspects the converse of the proposal to raise wages by artificial limitation of the supply of labour. One of the principal grounds on which it is advocated is that a larger number of workmen would be employed if each worked for a shorter time; it is hard to see how this could be without a reduction in wages, in which case the extra hands would be employed, partly at any rate, at the expense of the present workers. The argument savours of the Work-Fund fallacy. On the other hand the efficiency of the workers would probably be improved by increased leisure. We have much to learn on this problem from actual cases where shorter hours have been adopted, and on the question whether or not legislative interference is desirable: the experience of the colony of Victoria is valuable, though care must be taken in applying results to a different set of circumstances.

Marshall, Bk. VI. chap. 13, and chap. 12, § 10 to end.
Jevons' Primer, chapter on Trade Unions.
Howell on Trade Unions. Price, Industrial Peace.
Report of Royal Commission on Labour.
Hadfield and Gibbins, A Shorter Working-day.
Walker, Political Economy, Pt. VI. chap. 7.

QUESTIONS.

LECTURE I.

1. What do you mean by Economic Laws? Compare them with
   (*a*) Statute Laws,
   (*b*) Laws of Nature.
2. What were the chief services rendered by Adam Smith to his country and to the service of Economics?
3. Under what circumstances was the "Wealth of Nations" written, and how did those circumstances affect the character of that work?

LECTURE II.

1. What do you understand by the "Manchester School"? Explain how they came to hold certain doctrines with so much absoluteness.
2. How far do you consider "laissez-faire" a practical working theory at the present day?
3. I buy a pair of boots; enumerate fully the various kinds of labour I thereby tend to employ.

LECTURE III.

1. What do you understand by the operation of the Law of Supply and Demand?
2. What is meant by "elasticity" of demand?
   Give examples of commodities for which the demand is (*a*) elastic, (*b*) inelastic.
   Can a commodity be both elastic and inelastic?
3. Explain carefully the relation of cost of production to value.

LECTURE IV.

1. Construct a curve illustrating (*a*) the law of Diminishing Returns,
   (*b*) the effect of a duty on foreign corn.
2. Explain and criticize Malthus's theory of population.
3. "Material progress does not merely fail to relieve poverty, it actually produces it" (Henry George). Discuss this statement.

LECTURE V.

1. What was Ricardo's theory of rent? How far do Carey's Criticisms affect it? and how far do you consider it applicable to the rent of a modern English farm?
2. Is there any element in the profits of a successful business similar in its nature to rent?
3. Mention broadly the advantages and disadvantages of any scheme of Land Nationalisation.

LECTURE VI.

1. What were the chief services rendered by Adam Smith to his country and to the science of Economics?
2. Point out generally the connections between the rate of wages and the nature of the work done.
3. Discuss the policy of the Merchandise Marks Act.

LECTURE VII.

1. What is meant by "Capital"? Classify and distinguish the various kinds of capital.

2. What are the chief causes of the accumulation of capital?

3. What are the principal considerations that determine the rate of interest at any time?

LECTURE VIII.

1. In what respects does the modern organisation of industry differ from that obtaining 150 years ago?

2. Suggest some reasons why England has remained alone in her adoption of Free Trade.

3. What are the principal advantages of Free Trade? Discuss the benefits or otherwise of the introduction of machinery.

LECTURE IX.

1. Explain the connection between 'value' and 'utility.'

2. "Labour," says Adam Smith, "is the only universal as well as the only accurate measure of value." Examine this opinion.

3. What are the effects of monopoly on value?

LECTURE X.

1. What are the purposes which money fulfils in a civilised country?

2. What does the stamp do for a coin? Many say that it gives the coin value. Is that so?

3. Examine the doctrine that the value of money is inversely as its quantity.

LECTURE XI.

1. Explain and criticise the theory that wages depend on the ratio of population to capital.

2. Point out in what respects the earnings of the employer differ from or resemble the wages paid to other classes of labourers.

3. Comment on the proposition that as wages increase profits fall, and *vice-versa*.

LECTURE XII.

1. Explain the nature and objects of a Trade Union. Is there any difference in these respects between 'Old' and 'New' unions.

2. Under what circumstances can a trade-union permanently raise the average rate of wages earned by its members?

From what source do the increased wages proceed?

3. What do you consider likely to be the effect of a general reduction of hours upon (*a*) prices, (*b*) wages, (*c*) the 'unemployed'?

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